

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

BILL NUMBER: House Bill 1194 (First Edition)
SHORT TITLE: Retirement Admin. Changes Act of 2014.
SPONSOR(S): Representatives Collins and S. Ross

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; local government funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS).

BILL SUMMARY:

Section 1: Amends G.S. 135-5(g) and G.S. 128-27(g) to change the timing of the offset for Social Security benefits under Option Four. Option Four, one of the payment options available to TSERS and LGERS retirees, provides a higher benefit until the retiree becomes eligible for Social Security and a lower benefit after eligibility, with the goal of providing a more constant income stream in total. Because Social Security benefits for a given month are paid in the following month, this can result in the retiree receiving significantly less total cash flow in the month he or she first becomes eligible for Social Security. This section would delay the reduction in the TSERS or LGERS benefit by one month to avoid this situation.

Section 2: Amends G.S. 135-8(f) and G.S. 128-30(g) to clarify the procedure for granting a penalty waiver to employers that fail to remit contributions in a timely manner.

Section 3: Amends various statutes to allow members to choose a beneficiary for the Contributory Death Benefit of \$10,000. The benefit is currently paid to the spouse, if married, or to the estate. The current payment order would continue to apply if the retiree does not name a beneficiary.

Section 4: Amends G.S. 135-6(i) and G.S. 128-28(j) to require the Boards of Trustees to publish an annual report on supplemental insurance offerings for retirees such as vision, dental, and life insurance.

Section 5: Amends G.S. 135-9 and G.S. 128-31 to limit payment of a member's former spouse's benefit under a domestic relations order entered on or after January 1, 2015 to the lifetime of the former spouse. Currently, the benefit can continue to beneficiaries of the former spouse's estate.

Section 6: Provides personal immunity from civil liabilities for fiduciary decisions made by members of the TSERS and LGERS Boards of Trustees.

Section 7: Amends G.S. 135-151(j) and G.S. 128-38.10(k) to extend the sunset of benefit eligibility from 2015 to 2017 under the Qualified Excess Benefits Arrangement, which provides benefits in excess of the limits in Section 415 of the Internal Revenue Code.

Section 8: Amends G.S. 128-27(a)(1) to allow rescue squad workers to have the same early retirement option at age 55 with five years of service as firefighters. This benefit option is reduced for early payment and is rarely elected.

EFFECTIVE DATE: Sections one and three of the bill would become effective January 1, 2015. Section eight of the bill would become effective July 1, 2014. All other sections of the bill would become effective October 1, 2014.

ESTIMATED IMPACT ON STATE:

Buck Consultants, the actuary for the Retirement Systems, estimates that the required contribution rate will increase by less than 0.01% of payroll due to each of the sections.

Hartman & Associates, the actuary for the General Assembly, estimates that Section 1 will increase the present value of benefits in TSERS by \$8.1 million and in LGERS by \$1.7 million, increasing the required contribution rate by 0.01% of payroll in TSERS and less than 0.01% of payroll in LGERS. None of the other sections were estimated to have a material impact on the retirement systems they affect.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2012 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2012 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	312,512	122,270	564	169
General Fund Compensation	\$9,891M		\$70M	\$4M
Valuation Compensation (Total)	\$13,597M	\$5,427M	\$71M	\$4M
Average Age	45	44	55	60
Average Service	10.5	10.3	13.2	8.0
Inactive Members				
Count	124,976	47,663	48	81
Retired Members				
Count	179,908	54,547	559	283
Annual Benefits	\$3,713M	\$972M	\$33M	\$2M
Average Age	70	68	72	76
New Retirees During 2013	12,400	4,400	40	37

Financial Statistics (as of 12/31/2012 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$63,630M	Not meaningful	\$528M	\$24M
Actuarial Value of Assets (AVA)	\$59,912M	\$20,295M	\$481M	\$29M
Market Value of Assets (MVA)	\$57,780M	\$19,723M	\$466M	\$28M
Unfunded Accrued Liability (AL - AVA)	\$3,718M	Not meaningful	\$46M	(\$6M)
Funded Status (AVA / AL)	94%	Not meaningful	91%	123%
Annual Required Contribution (ARC) for FY 2014-15 (as % of pay)	8.76%	6.94% (non-LEO)	26.55%	0.00%
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	4.25% - 8.55%	5.00% - 5.95%	7.50%
Cost Method	Entry Age Normal	Frozen Entry Age	Projected Unit Credit	Projected Unit Credit
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$	8 year, open, flat \$

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/10 (5 if hired < Aug 2011)	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/10 (5 if hired < Aug 2011)	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Buck Consultants, “Retirement Administrative Changes Act of 2014 (House Bill 1194)”, May 29, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 1194: An Act to Make Changes to the Administration of the State Retirement Systems”, May 29, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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DATE: June 3, 2014



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